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BEFORE THE U.S. SENATE COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON AGRICULTURE, RURAL DEVELOPMENT
AND RELATED AGENCIES

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Mr. Chairman and members of the Committee, I appreciate the opportunity to appear at this hearing to discuss the current situation and outlook for U.S. agriculture. In general the agricultural sector should show improvement this year after several years of low prices. However, recovery is expected to be slow and uneven, with some sectors such as dairy continuing to lag.

Outlook for U.S. and World Economies and the Implications for Agriculture

Macroeconomic factors, such as the exchange value of the dollar and slow economic growth around the world, have constrained demand for U.S. agricultural products and farm prices and will continue to do so over the next year or more.

The past 2 years have been disappointing as far as the U.S. economy goes. We have been continually pushing out into the future the expected rebound. Six months ago, the blue chip economists' forecast of U.S. Gross Domestic Product (GDP) growth for 2003 was 3.5 percent. Now, it is 2.4 percent, the same as last year's growth rate. The U.S. economy in 2003 will face some of the same restraints it faced in 2002: excess capacity, low returns in many sectors, high consumer and business debt, low consumer confidence, high unemployment, and weak growth in Japan and Europe.

But on the positive side: interest rates are low; liquidity is substantial; consumer confidence is rising; oil prices have declined; and fiscal policy is expansionary and may get more so with enactment of a growth package that cuts taxes or provides other stimulus. Unfortunately, though, we do not foresee stronger economic growth for the United States, such as in the 3 to 3.5 percent range, until 2004, and unemployment remains high.

When the U.S. economy is very weak, as in the recessions in 1991 and 2001, growth in food consumption slows. It did pick up in 2002, but was still not very strong, rising only 1.7 percent, which is half the rate of growth in 1999, when the economy was stronger and consumers were more confident. With the economy likely to show limited growth this year, we can expect food spending to be similar to last year, perhaps slightly stronger.

Consumer spending at grocery stores in 2002 also grew slowly, rising 1.5 percent. However, sales were up 2.5 percent during the first quarter of 2003, compared with a year earlier. As the U.S. economy eventually starts growing faster, the farm economy will benefit from stronger domestic food sales. As we look to the future, we can expect American consumers to continue to shift their consumption patterns as factors like income, population diversity, age, diet and health awareness drive change. Per capita consumption for such foods as fruits, vegetables, yogurt, eggs, poultry, grains, and nuts are likely to grow, while milk, red meats and potatoes may face declines.

World economic growth continues to be slow. Global GDP is forecast at only 2.0 percent in 2003, similar to last year's 1.9 percent. While mild U.S. growth will restrain overall foreign growth, growth for most of our trading partners, with the exception of Japan and the European Union, is expected to be moderate. Economic growth in Asia is forecast at 5.4 percent in 2003, down slightly from the 5.8 percent growth in 2002. Mexico's GDP is expected to continue its slow recovery, with 2003 growth forecast at 3.0 percent. Likewise, Brazil and Argentina should see positive growth this year after the sharp devaluations and recessions in 2002.

Despite the weak global economy, the value of U.S. agricultural exports is forecast to reach $57 billion in fiscal 2003, the fourth consecutive annual increase. We are within striking distance of the record $60 billion achieved in fiscal 1996. Much of the increase is due to stronger farm prices rather than volume gains. The value of agricultural imports has also risen during that same period, but so has our agricultural trade surplus.

Although the dollar remains relatively strong, especially against Latin American currencies, it has depreciated against the euro, Canadian dollar, and the yen. On a weighted-average basis, against the currencies of our major markets, the dollar has fallen steadily since early 2002. Although no precipitous drop in the dollar is anticipated, we are likely to see a slow decline against major currencies over the rest of the year and into 2004. The United States is running a record current account deficit, which requires financing from overseas. However, the combination of low real interest rates in the United States and a listless economy is unlikely to attract foreign investment. Thus, for the moment, the fundamental direction for the dollar has to be down. This is good news for export prospects.

USDA released its long term baseline projections on February 7. They suggest some of the export pressures and opportunities U.S. farmers may face in the future. Exports are seen rising to the 1996 record of $60 billion by 2005 and then to nearly $72 billion by 2010. But the projected growth is all in intermediate and consumer ready products. By contrast, bulk commodities are expected to face continued very strong competition. For many of the bulk products, their best entry into export growth markets will be in value-added and processed form, such as feed grains and protein meals exported as meat.

Outlook for Major Crops

Weather remains the dominant factor shaping the near-term outlook. Drought in key areas in 2002, notably in Australia, Canada, and the U.S., depleted crop supplies in traditional exporting countries, and drought in Africa expanded global food aid needs. Weather raised many U.S. crop prices, and these higher prices are carrying into the first half of 2003. However, a rebound in yields and strong competition especially from traditional competitors will likely cause a pull back in prices. The major uncertainty in this conclusion is the ongoing drought in the west, although precipitation has helped in recent weeks.

Wheat plantings for 2003/04 are estimated at 61.7 million acres, up 1.3 million (2 percent) from 2002, as gains in winter wheat more than offset lower spring wheat plantings. Winter wheat seedings are 6 percent above last year, with most of the increase in hard red winter (HRW). Soft red winter (SRW) plantings are down as prolonged wet conditions resulted in reduced seedings in parts of the Delta, Southeast, and Atlantic Coast and offset gains in the Midwest. Farmers indicated in March that they plan to plant 7 percent less land to other spring wheat and 3 percent fewer durum acres than in 2002.

Wheat prices are down sharply from the highs of last fall and alternative crops are offering better returns than spring wheat. For example, contract prices for malting barley are up sharply from last year, due to drought-reduced supplies in the U.S. and Canada.

While wheat planted area looks like it will expand less than previously expected, wheat production is forecast up more than 30 percent from last year's unusually poor crop. Harvested acres are forecast up 6.9 million acres (15 percent) and yields up 4.8 bushels per acre (14 percent). If this projection materializes, larger production would more than offset the smallest carryin stocks since 1996/97, leaving 2003/04 supplies almost 185 million bushels above 2002/03.

Food use likely will increase, but at a rate less than population growth due to changes in diets and baking technology that have extended the shelf life of bakery products. Feed and residual use, forecast at 175 million bushels, will be up sharply from the unusually small 125 million bushels in 2002/03. Reduced wheat prices, especially during harvest, will promote the use of wheat for feeding. Hog and poultry feeders in the Southeast and Atlantic Coast areas and cattle and hogs feeders in the Plains likely will see relatively high prices for corn during the early summer. These areas had poor corn and sorghum crops in 2002 and will have to bear the cost of transporting feed corn from a greater distance than usual.

U.S. 2003/04 wheat exports are estimated at 950 million bushels, an 8.6 percent increase over 2002/03 levels. The U.S. will face increased competition from expanding production in the major foreign exporters, especially Australia and Canada, and declining competition from Russia, Ukraine, and Eastern Europe.

Total wheat use in 2003/04 is expected to increase about the same as supplies, leaving ending stocks little changed from a year earlier. Prices received by farmers are expected to average \$3.05 to \$3.65 per bushel, compared with \$3.56 in 2002/03. Large U.S. winter wheat supplies, declining global imports, and sharply expanding production in Australia and Canada will provide little opportunity for prices to rebound as the year progresses. However, if crops in the major foreign exporters do not rebound strongly from 2002/03, U.S. prices will rise sharply to ration limited supplies, because the "minor" exporters will not have the supplies available to step in and meet market needs, as they did this past year.

U.S. ***rice*** producers intend to plant 3.0 million acres in 2003, down 6 percent from last year, and a decline of 8 percent from the preceding five-year average. Planted area in long-grain rice is down 9 percent from last year, while combined medium-and short-grain plantings are up 5 percent. Poor market prices is the primary reason for the decline in expected plantings. The recent strengthening of U.S. prices due in part to anticipated significant food aid purchases destined for Iraq could offset some of the expected decline in planted acres.

Assuming trend yields, U.S. rice production in 2003/04 is expected to be down about 5 percent from last year's bumper crop. Average rice yields have jumped higher in the last several years due to the introduction of higher-yielding long-grain varieties in the South. Production of long grain rice is expected to be down about 9 percent from 2002/03, while combined medium- and short-grain rice production will be up fractionally. Domestic and residual use is expected to be up slightly and on trend, while U.S. exports are expected to be down 26 percent from record 2002/03 levels because of reduced supplies and keen international competition. Ending stocks are expected to total 22.1 million cwt, about the same as 2002/03. The season-average price is expected to be \$1.10 per cwt higher than 2002/03 due to tighter domestic supplies.

Global rice trade for calendar year 2003 is projected to contract slightly with global rice prices below the levels of the 1990s. For example, Thai 100b long grain milled rice was quoted at about $209 per ton as of early April compared to $194 per ton a year ago and $276 per ton two years ago. In 2002, India subsidized the majority of its exports in an effort to reduce burdensome stocks thereby pressuring rice prices. India is currently reviewing its export policy for 2003 and may decide to reduce the level of export subsidies as its stocks are worked down.

In 2003, Thailand will continue to be the world's predominant exporter with exports projected at 7.5 million tons, 4 percent above 2002. The other top exporters will include Vietnam and India at 4.0 million tons each, followed by the U.S. at 3.4 million tons and China at 2.25 million tons. Indonesia is projected to be the largest importer with imports of 3.25 million projected for 2003, 7 percent below 2002. Other large importers include Nigeria at 1.5 million tons, Iran at 1.25 million tons, and the Philippines at 1.2 million tons.

In March, U.S. ***corn*** farmers indicated they will plant marginally fewer acres to corn than the 79.1 million seeded in 2002 and well below industry expectations for a 1 to 2 million acre increase. The expected expansion in corn acres may not occur because of lower acres in the Great Plains, where lack of irrigation water, concerns about high energy prices, and lack of soil moisture reserves changed farmers' intentions. Corn harvested acreage for grain is forecast at 72 million acres and yield is forecast at 139.7 bushels per acre, based on a simple linear trend over crop years 1960-2001 and is well above the 130 bushels per acre in 2002 and the 1994 record of 138.6. Thus, corn production is forecast at 10.1 billion bushels, up more than 1 billion from 2002. However, reduced carryin stocks will be partially offsetting and total supplies are projected at 11.1 billion bushels, up around 510 million from 2002/03.

Projected 2003/04 corn feed and residual use is down slightly from a year earlier, but food, seed, and industrial use is expected to increase 4 percent, following a 11-percent gain in 2002/03. While most uses are expected to show little change, corn used for ethanol production is projected to increase 8 percent from the rapidly expanding levels of 2002/03.

The global setting for feed grain trade in 2003/04 is more favorable than that for wheat, but U.S. corn exports will continue to face strong competition from corn from Argentina and China and feed wheat from India and the Black Sea region. However, an expected 20-cents-per-bushel drop in the U.S. farm price of corn will make U.S. corn more competitive. China's corn exports continue to be the biggest unknown. Corn plantings in China are expected to decline as some producers switch to soybeans in response to various Government incentives and a reduced protection price for corn. However, the volume of China's corn exports will continue to largely depend on the level of Government export incentives. U.S. corn exports are projected at 1,850 million bushels, up 225 million from the 2002/03 forecast.

Corn ending stocks for 2003/04 are projected at 1,304 million bushels, a rise of less than 250 million from the forecast 2002/03 level. The projected farm price of $1.90 to $2.30 compares with a forecast price of $2.30 for 2002/03.

Soybean production in 2002/03 was 2.7 billion bushels, down about 5 percent from the record level achieved a year earlier. Despite reduced total use, ending stocks are projected to decline to 145 million bushels, the lowest since 1996/97. At these levels, the soybean stocks-to-use ratio is the lowest in 30 years. Before the dramatic expansion of soybean production in South America in recent years, stocks at these levels would have been associated with much higher prices. However, with soybean production in South America significantly exceeding that of the United States, farm level prices are likely to average only $5.50 per bushel.

Soybean producers in March indicated intentions to plant 73.2 million acres for 2003, down 0.6 million acres from 2002. If realized, soybean acreage would decline for the third consecutive year. Although net returns and crop rotations favor a shift toward corn this year as evidenced by the intentions of producers in the Eastern Corn Belt, producers in the Northern Plains are planning to further expand soybean acreage, a trend that began in the mid 1990's. With a return to trend yields, production is expected to reach 2.9 billion bushels, up 4 percent from 2002.

Domestic soybean meal demand is projected to grow at a moderate 1-2 percent, limited by slow expansion in poultry and hog production and increased availability of other protein meals. With large competitor supplies of soybeans, soybean meal exports are likely to remain relatively weak as well. Soybean meal prices are projected to decline 6 percent from 2002/03 levels.

Much of the world's 2003/04 soybean demand growth will come from China and other Asian markets. Demand is also rising in Latin America, the Middle East and North Africa. In 2002/03, China is forecast to import a record 16.5 million tons, exceeding its domestic soybean production for the first time. U.S. exports to China will reach record levels in 2002/03. However, record South American soybean crops will leave world supplies high in the fall of 2003, and likely will limit export growth for the U.S. for both soybeans and soybean meal. Consequently, U.S. soybean exports are projected to decline about 5 percent in 2003/04. With larger supplies and limited demand growth for U.S. soybeans, ending stocks are expected to increase to above 200 million bushels for 2003/04. With higher stocks and continued prospects for larger foreign soybean production, soybean prices are projected to drop below $5.00 per bushel for the 2003/04 marketing year.

Cotton production for 2002/03 was 17.2 million bales, a reduction of 15 percent from the preceding year's record. Domestic mill use has stabilized after a 13-percent drop in 2001/02 and is forecast at 7.6 million bales. Lower foreign production and higher foreign consumption are supporting exports at a level near last season's 11.0 million bales–the current forecast is 10.8 million bales. With total use approaching that of last season, ending stocks are expected to fall 17 percent to 6.3 million bales. The reduction in stocks, combined with higher world prices, has raised farm prices more than 40 percent from last season's 29-year low.

Cotton producers intend to plant 14.3 million acres in 2003, 2 percent more than last year. While cotton prices have risen, so have prices for alternative crops. The small increase in area is primarily a result of a more certain environment following passage of the 2002 farm bill. With average abandonment and yields, production would be about the same as 2002's 17.2 million bales. Domestic mill use is likely to stabilize or fall slightly in 2003/04, as U.S. mills continue to have difficulty competing with textile imports. Exports, however, could rise to a record 11.5 million bales. If these forecasts are realized, stocks would be drawn down to about 4.7 million bales, which is a relatively tight 25 percent of total use, and cotton prices would likely continue to rise.

World cotton stocks are forecast to fall to 36.6 million bales at the end of 2002/03, their lowest level since 1994/95. A combination of lower area and unfavorable weather cut world production more than 10 percent; at the same time, demand has probably has been helped by low cotton prices vis-a-vis polyester. While global cotton production is likely to rebound in 2003/04 in response to higher prices, it will be difficult to offset the reduction in stocks experienced in 2002/03 and, at the same time, satisfy further increases in demand. Therefore, world stocks are anticipated to remain tight through the 2003/04 season.

U.S. ***sugar*** production in 2003/04 likely will increase, assuming average weather, following last year's damaging storms in Louisiana and below-average sugarbeet yields in many northern States. However, if sugar consumption returns to near-normal growth, supplies likely will not be burdensome to producers. A major uncertainty in the near future is how to accommodate a completely integrated North American sweetener market, as will happen by 2008 under the North American Free Trade Agreement. Additional uncertainties could develop in the next round of WTO trade talks, and as the United States works toward bilateral and regional free trade agreements.

The outlook for U.S. sugar markets largely will be driven by the sugar program. At present, marketing allotments are being used to prevent sugar loan forfeitures and maintain the program at no cost to the taxpayer, as directed by the 2002 Farm Bill. Allotments have been in effect since October 2002, and raw sugar prices have averaged 22 cents per pound while refined sugar has averaged 27 cents per pound. As long as sugar imports do not exceed the legislated trigger, marketing allotments will remain in place and prices likely will continue at these levels.

At $11.3 billion forecast for 2002/03, ***horticultural*** exports account for 20 percent of total agricultural exports and a significant portion of horticultural farm sales. Reduced growth rates began with the Asian financial crisis and continued with stagnating prospects in the European Union. While fresh citrus, processed fruits and vegetables, wine, and nursery/greenhouse products have stabilized, prospects have been stronger for fresh vegetables and deciduous fruits, tree nuts, and juices.

The outlook for horticultural crops is a return to trend growth in farm sales, following a strong performance in 2002/03. Fruit and vegetable farmers earned $28.4 billion from the 2002 harvest, up $1.6 billion and well above trend growth. The increase resulted from higher output and prices. Fruits and vegetables, which have accounted for 30 percent of all horticultural crop values in recent years, are sharply up from a 22-percent share for 1996. In addition, greenhouse/nursery crop sales likely will top $14 billion in 2003, increasing $600 million following flat growth in 2002. Export growth, however, has slowed to only $200 million annually during the last 5 years, much lower than $700 million yearly growth leading up to 1997.

Outlook for Livestock, Poultry and Dairy

The ***livestock, poultry, and dairy*** sectors experienced a stressful year in 2002 as weather, disease, trade disruptions, record production, and low prices affected markets. Price prospects for the livestock and poultry sectors are much improved for 2003, but the outlook for the dairy sector remains guarded.

Commercial ***beef*** production in 2002 reached a record 27.1 billion pounds as drought conditions caused producers to continue to reduce their herds. With record beef production, as well as record pork and broiler production, Choice Nebraska steer prices fell nearly 8 percent to $67.04 per cwt.

U.S. commercial beef production is forecast at 26.2 billion pounds in 2003, 3.2 percent lower than in 2002. After wheat grazed cattle are placed in feedlots this spring, feeder cattle supplies are expected to tighten, especially if forage conditions improve, enabling producers to hold back heifers for herd rebuilding. Cattle slaughter is expected to decline year-over-year during the second half of the year, ending 3.5 percent lower. Choice Nebraska steer prices in 2003 are forecast to be $76 per cwt, an increase of 14 percent from 2002. Firm beef demand and tighter cattle supplies pushed prices to about $78 per cwt in the first quarter of this year. After a seasonal decline during the spring, steer prices will then increase to the upper $70's per cwt.

Beef exports in 2002 rebounded from the BSE-reduced import demand of 2001. Although sales were weak to Japan, U.S. exports to Mexico and Korea reached record levels. In 2003, beef exports are forecast to be about the same as in 2002 as Japan remains weak and tighter supplies limit growth but then rise 3-4 percent in 2004 as the world economy improves.

Herd liquidation continued for the seventh consecutive year in 2002. The cattle herd on January 1, 2003, was 96.1 million head, about 1 percent lower than a year earlier. Herd expansion is not expected this year as most heifers retained this year will not calf until 2004. Signs of heifer retention likely will appear by late May or early June as producers finalize retention decisions. For 2004, another decline in beef production is expected and fed cattle prices could reach record high levels.

In 2002, ***pork*** production increased 2.7 percent to a record 19.7 billion pounds. Hog imports from Canada climbed to more than 5.7 million head last year, and 66 percent of the imports were feeder pigs mainly destined for finishing operations in the Midwest. Increased pork supplies last year resulted in an average hog price of about $35 per cwt, nearly $11 below the previous year's price.

Given last year's price weakness, the industry appears not to be expanding in 2003. Beginning with the 4th quarter of 2002 and continuing into 1st quarter 2003, producers reduced the number of sows farrowed by about 2.5 percent. Producers also indicated they intend to farrow 3 percent fewer sows through August 2003. This would result in a smaller pig crop and fewer hogs to slaughter in 2003 and into 2004. Consequently, pork production is forecast at 19.5 billion pounds in 2003, 1 percent lower than in 2002, with another 1 percent drop in 2004. Hog prices are forecast at $38-$39 per cwt in 2003, up 9-12 percent over 2002, with a further price increase in 2004 into the low $40's per cwt.

Pork exports increased 3.5 percent in 2002, due to rising shipments to Japan and Korea. In 2003, exports are forecast to increase nearly 3 percent and another 2 percent in 2004.

Whole-bird ***broiler*** prices dropped 6 percent to 55.6 cents in 2002. Parts prices were even weaker as the broiler sector, which exported nearly 18 percent of production in 2001, was hit with trade disruptions caused by disease outbreaks and trade disagreements with Russia over antibiotic use and processing plant inspections. Northeast leg quarter prices were 28 percent lower in 2002 than in 2001. Meat that could not be exported led to burdensome broiler stocks which weighed on other prices. In response to the price weakness last year, broiler producers began to scale back production in the fall of 2002. Hatchery data indicates that eggs set in incubators and chicks placed on feed have been below year ago levels since last September, except for 1 week.

As a result of these cutbacks, broiler production in 2003 is forecast to increase just 0.2 percent, the smallest year-to-year increase since the early 1970's. Higher prices may result in production increases beginning in the later part of the year and continue into 2004 when a 1 percent increase is projected. Broiler prices in 2003 are forecast at 60-62 cents per pound, up 8-12 percent, and the highest average price since 1998, and hold there in 2004.

Broiler exports fell nearly 14 percent in 2002 because of disease outbreaks and a Russian ban on poultry imports. Exports in 2003 are forecast at 5.0 billion pounds, 4 percent higher than last year. In an attempt to stimulate domestic production, Russia imposed a 1.05-million-ton quota on poultry imports for the next three years. The quota goes into effect at the beginning of May, and the quota quantity is prorated at 744,000 tons for 2003. The United States was allocated 553,500 tons under the quota in 2003. Under this scenario, the United States will not export to Russia much more than levels from a year ago because of trade uncertainties early in the year and the quota limitations beyond April.

In 2002, ***milk*** production increased 2.5 percent to 169.8 billion pounds. Output per cow gained more than 2 percent and the number of milk cows were slightly higher as producers responded to the high prices of 2001. However, in the face of expanded production and slowing demand, the all-milk price fell to $12.11 per cwt, 19 percent below a year earlier. Prices for butter, cheese, and nonfat dry milk (NDM) were considerably weaker in 2002 as fat basis commercial use languished at just 0.5 percent above 2001 and skim-solids use declined. With increased milk production and weaker commercial use in 2002, Commodity Credit Corporation (CCC) purchases of nonfat dry milk were 66 percent higher than in 2001, and cheese purchases were 4 times the level of the previous year.

For 2003, the all-milk price is expected to drop around 7 percent to $11.10-11.60 per cwt. Milk production is forecast to increase 1 percent to 171.4 billion pounds on continued gains in output per cow. Although beginning the year fractionally above 2002, cow numbers are expected to drop slightly this year. Cow numbers have remained higher than expected because exits from the dairy industry have been slower than anticipated over the past year. The Milk Income Loss Contract program likely has provided many producers with a cushion against low milk prices. Commercial use is expected to increase about 2 percent in 2003 but not enough to boost prices given the abundant supply of milk and stored products. As a result, CCC purchases of butter, cheese, and NDM are expected to remain substantial.

Farm Income Outlook

The U.S. farm economy was under financial stress in 2002, but it is on an improving footing in early 2003. Some producers, especially those affected by weather, do face serious problems. However, because of structural diversity and preventive steps, most in agriculture are enduring. While prospects for 2003 look stronger for many producers, a boom is not in sight.

In 2002, farm cash receipts for crops rose slightly, but livestock receipts fell $10.5 billion as prices fell sharply under the big, drought-driven increase in meat production and slower meat exports and lower milk prices. Another factor affecting farm income was the slow pace of farm program signup, which resulted in $4 billion in government payments being shifted from the fall of 2002 into 2003. These factors combined to reduce farm income in 2002 quite sharply and cause it to drop below the levels we forecast a year ago. Net farm income, which includes noncash items such as depreciation and inventory change, fell 29 percent in 2002 from the 2001 level. Net cash farm income, which is gross cash income minus total cash expenses, fell 22 percent.

In 2002, net cash income, the income an operator has left over to pay living expenses, capital costs and service debt, was at its lowest level since the mid 1980s. The big drop indicates many producers faced tight budget constraints in 2002, particularly those in weather-affected areas. Income declines occurred in all regions and were especially pronounced for hog and dairy operations. This continues to pressure input markets such as machinery sales. Many bankers tightened collateral requirements as their unease grew during 2002. On the other hand, loan delinquencies have been modest, farm interest rates remain low, and banks remain in sound condition with ample loanable funds.

Several factors contribute to the economic resiliency of many farm households. First, three out of four farm households earn the majority of their income from off-the-farm sources. This reduces the impact of farm income changes–either up or down–on their well being. Second, the farms most dependent on farm income are the 10 percent of farms that produce two-thirds of the output and receive the bulk of U.S. agricultural support. These farms, on average, have household incomes that are well above the national average and remained so in 2002. Third, the value of farm assets continues to grow, giving some financially stressed producers a chance to weather a down period by selling some assets or borrowing against them.

For 2003, net cash farm income is expected to rebound by 11 percent to over $51 billion, as both crop and livestock receipts grow and government payments rise. If government payments are excluded, net income from the market is expected to be little changed, as farm production expenses rise reflecting higher feed and feeder cattle costs and higher energy and fertilizer expenses. Farmland values remain strong, rising an estimated 4 percent in 2002, but are expected to rise at a slower 1.5 percent in 2003, reflecting the reduced cash income in 2002 and restrained market income expectations in 2003. For 2003, with slow growth in asset values but another boost in debt levels, the farm debt-to-asset ratio is forecast to move up to 16 percent a still healthy figure but the highest since 1998.

As always, these observations about the farm economy must be weighed in light of a number of uncertainties. There are many: the aftermath of the war in Iraq and its uncertainties; the global economy, its pace of recovery, the influence of uncertain factors such as SARS and the behavior of exchange rates; foreign nations' farm and trade policies, especially China for crop imports and exports, and places like Russia and Japan for meat imports; and finally, the weather, here as well as abroad.

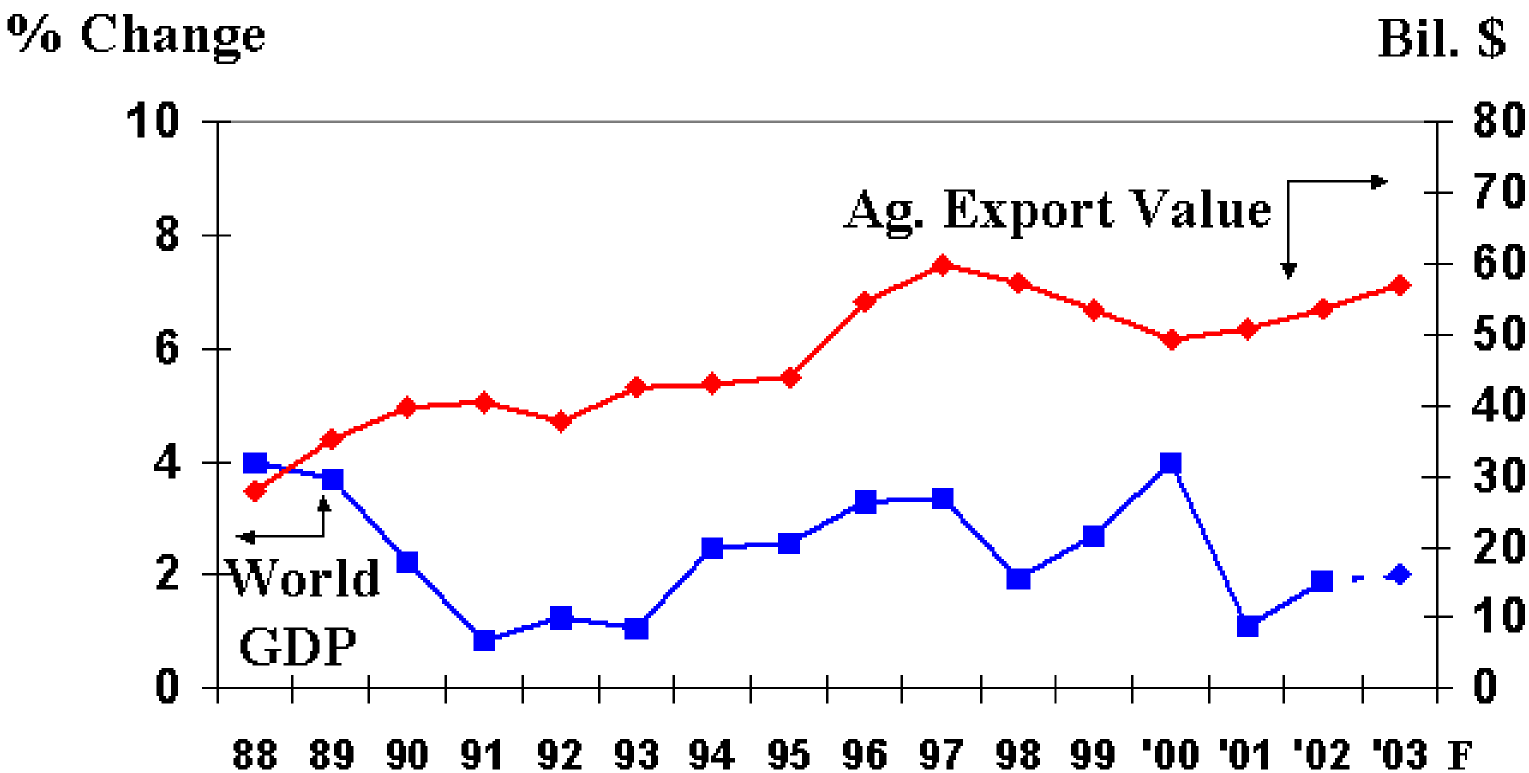
Farm Economic Indicators

Commodity Prices	Unit	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Wheat	$/bu	3.38	2.65	2.48	2.62	2.78	3.56	3.35
Corn	$/bu	2.43	1.94	1.82	1.85	1.97	2.30	2.10
Soybeans	$/bu	6.47	4.93	4.63	4.54	4.38	5.50	4.95
Rice	$/cwt	9.70	8.89	5.93	5.61	4.25	4.15	5.25
Cotton	cents/lb	65.20	60.20	45.00	49.8	29.8	42.5 1/	---
		1998	1999	2000	2001	2002	2003	2004
Hogs	$/cwt	34.72	34.00	44.70	45.81	34.92	38.50	42.50
Steers	$/cwt	61.48	65.56	69.65	72.71	67.04	76.50	80.50
Broilers	cents/lb	63.00	58.10	56.20	59.10	55.60	61.00	60.50
Milk	$/cwt	15.46	14.38	12.40	14.97	12.12	11.35	11.65
Gasoline 2/	$/gallon	1.07	1.18	1.53	1.47	1.39	1.56	1.43
Diesel 2/	$/gallon	1.04	1.12	1.49	1.40	1.32	1.53	1.38
Natural gas (wellhead) 2/	$per1,000 cubic ft	1.96	2.19	3.69	4.12	2.95	4.52	3.95
Electricity 2/	$/kwh	8.26	8.16	8.24	8.48	8.41	8.52	8.37

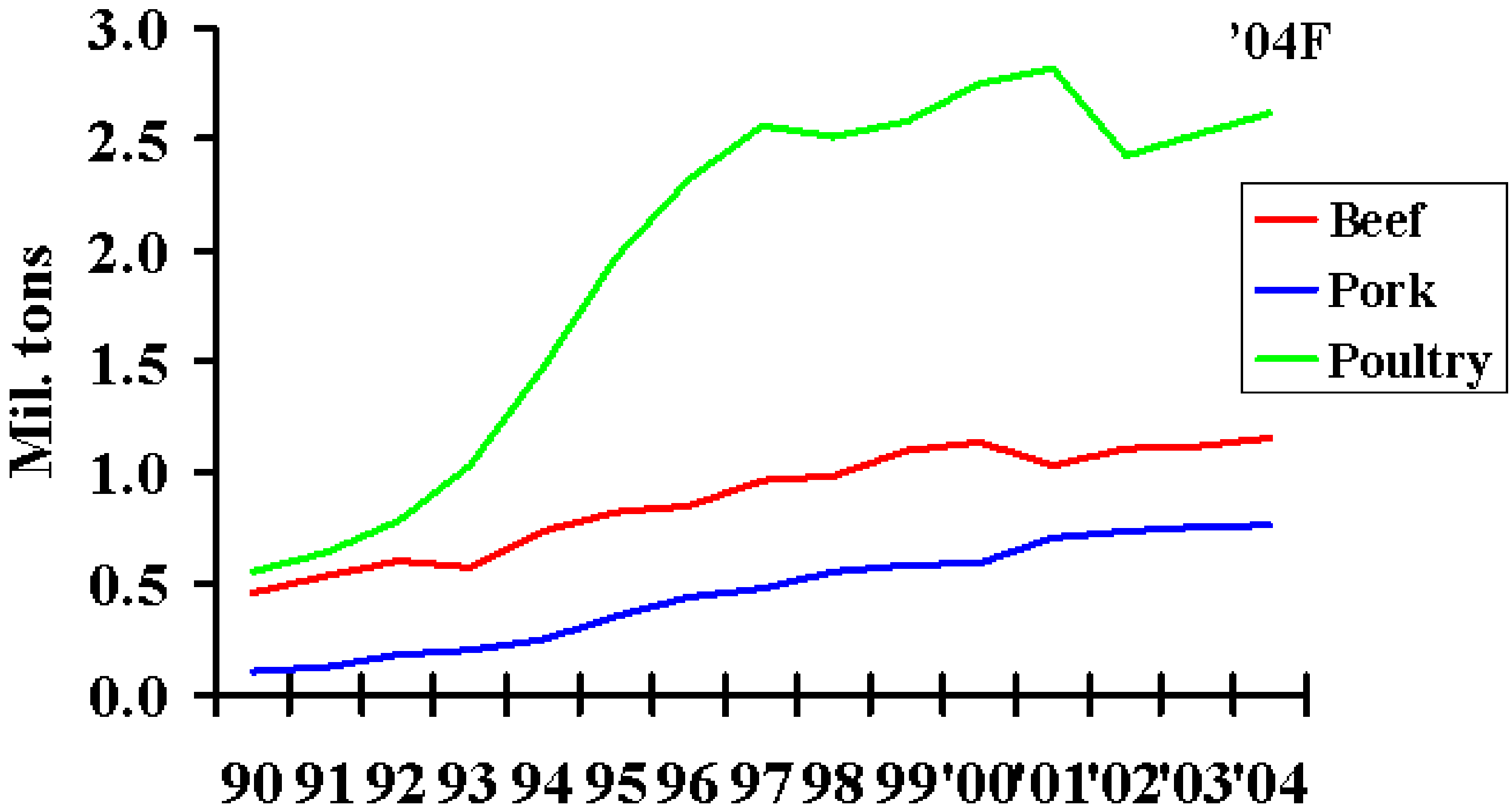
Agricultural Trade (Billion $)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Total exports	57.4	53.6	49.1	50.7	52.7	53.3	57.0	NA
Asia	23.9	19.7	18.5	19.7	20.1	19.4	20.9	NA
Canada	6.6	7.0	7.0	7.5	8.0	8.6	9.1	NA
Mexico	5.1	6.0	5.7	6.3	7.3	7.1	7.9	NA
Total imports	35.7	36.8	37.3	38.9	39.0	41.0	43.0	NA
Farm Income (Billion $)	1997	1998	1999	2000	2001	2002	2003	2004
Cash receipts	207.6	195.8	187.5	193.7	202.8	193.5	200.5	NA
Govt payments	7.5	12.4	21.5	22.9	20.7	13.1	17.6	NA
Gross cash income	227.3	222.2	224.0	230.4	238.5	222.5	234.9	NA
Cash expenses	168.7	167.4	166.9	172.0	178.8	176.2	183.6	NA
Net cash income	58.5	54.8	57.1	58.4	59.7	46.3	51.3	NA

1/ August through March average.
2/ Source: Energy Information Administration, Short Term Energy Outlook, April 2003.

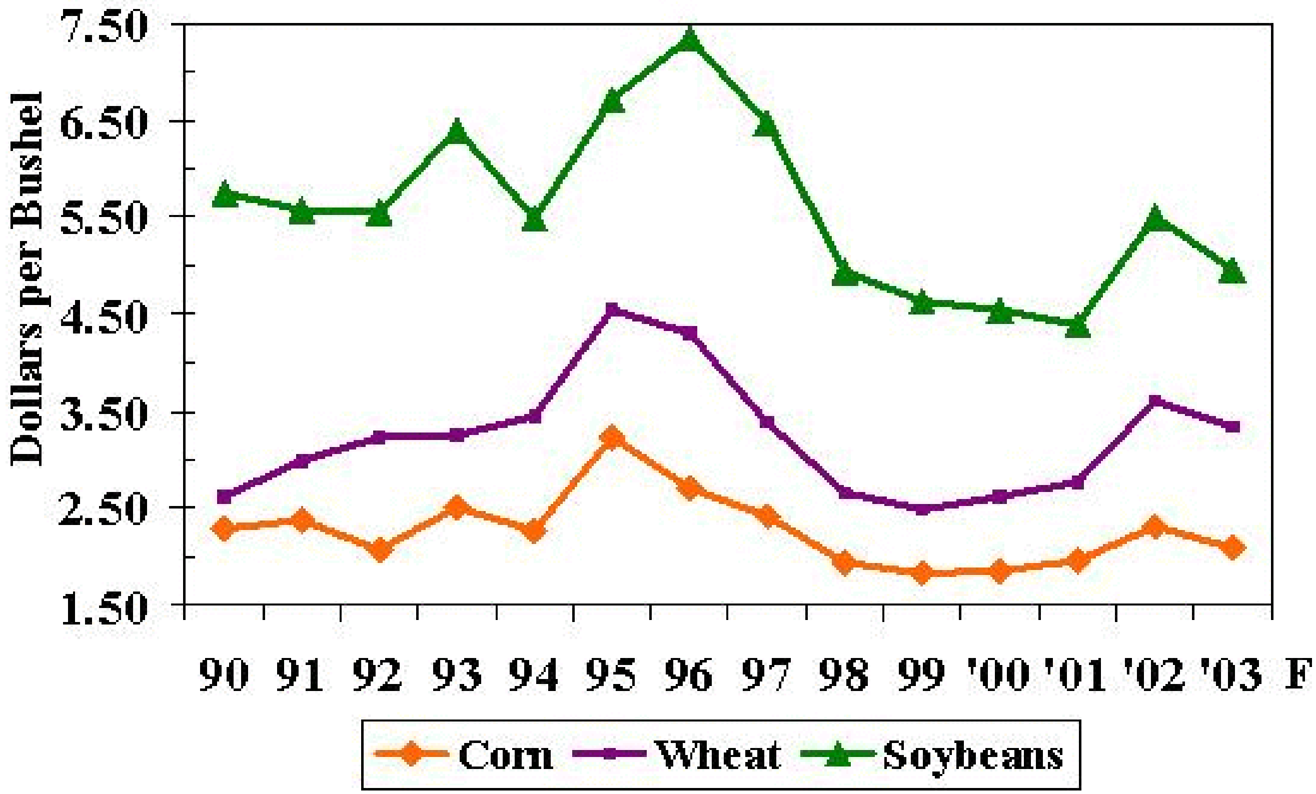
1--WORLD GDP AND U.S. AG EXPORTS



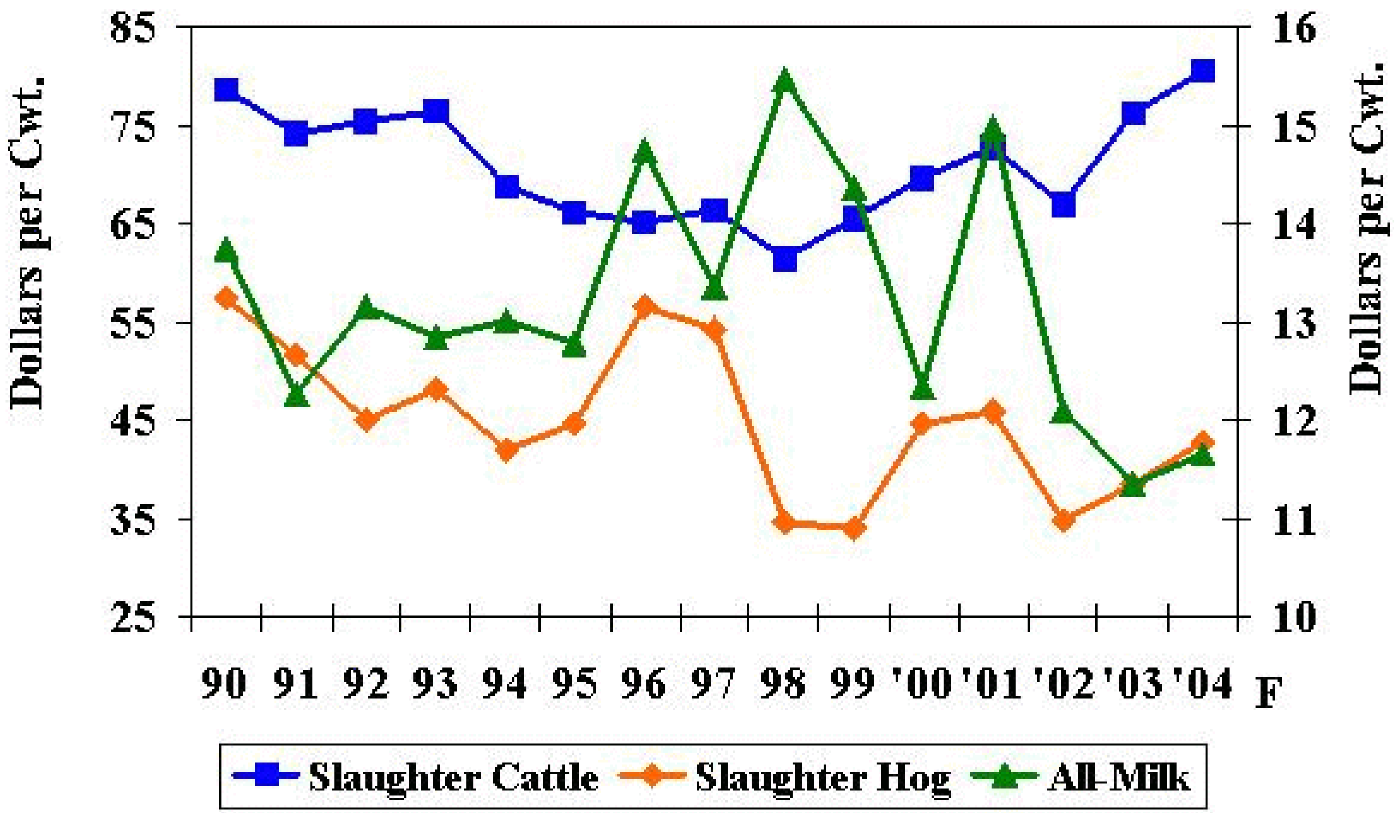
2--U.S. MEAT EXPORTS



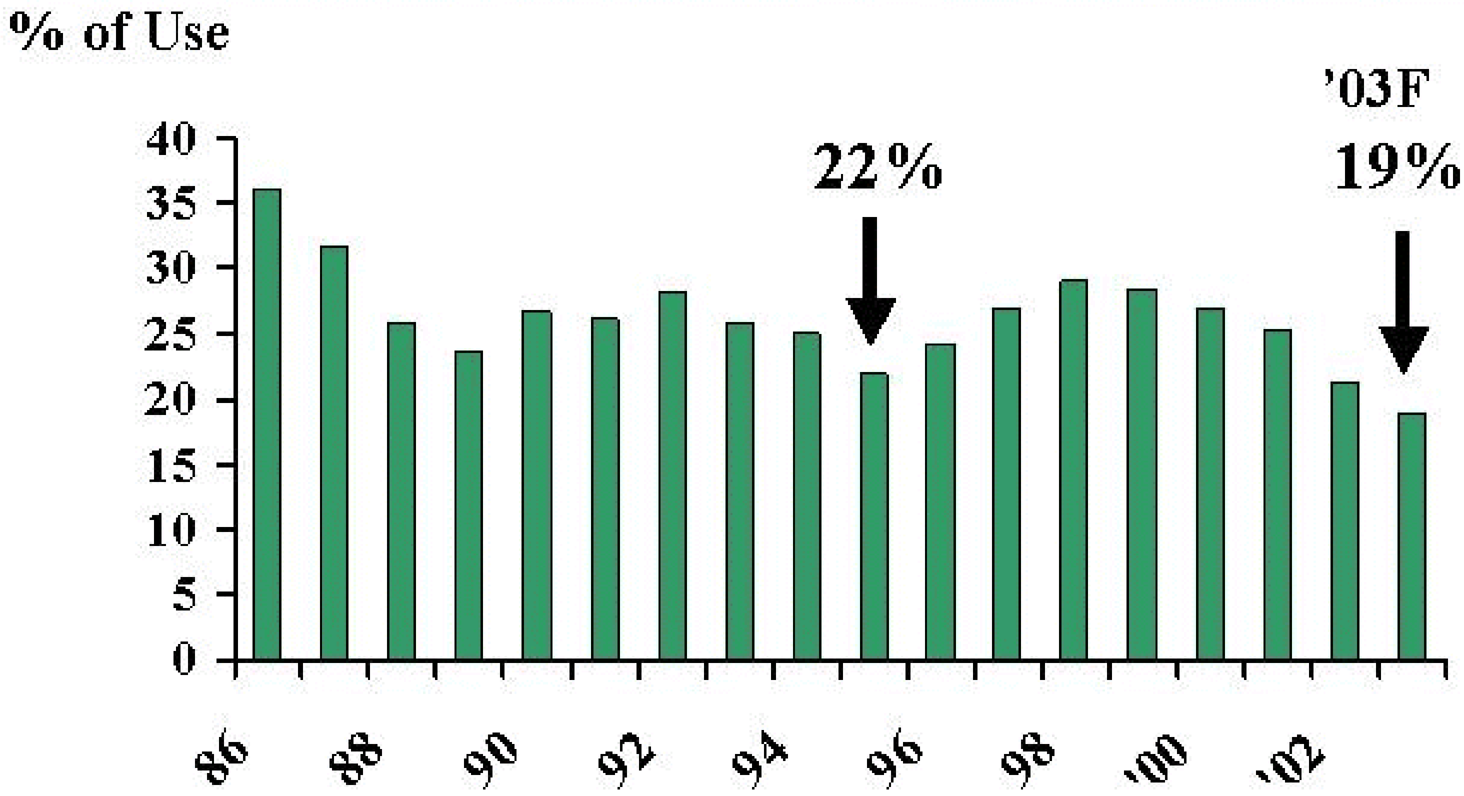
3--SEASON-AVERAGE PRICES FOR MAJOR CROPS



4--AVERAGE LIVESTOCK AND MILK PRICES



5--WORLD GRAIN STOCKS



6--U.S. NET CASH FARM INCOME